



THE IMPACT OF ECONOMIC DIPLOMACY ON SOUTH KOREA: A PERSPECTIVE ON THE ASIA-PACIFIC REGION IN THE POST-COLD WAR ERA¹

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ABSTRACT

With the Korean War between 1950 and 1953, the Peninsula got divided into two and furthermore, millions of people were killed during the war and half of the infrastructure was totally destroyed. President Park realized that the only way to compensate was to put aside the outdated Import Substitution Industrialization Model and implement the Export-Oriented Industrialization Model instead. Despite the obstacles, South Korea has become the agile-growing economy in the world with extraordinary economic achievements, even once one of the poorest countries. This study will argue that countries in the Asia-Pacific region act rationally, meaning they act in line with their economic interests and reflect upon their relative economic power that economic diplomacy relates to while conducting their economic relations, and they take positions relative to each other without considering them as "old enemies" or "new friends". Regional integration is preferred over the international and supranational organizations that have emerged through globalization or multilateral cooperation.

Keywords: South Korea, Economic Diplomacy, Asia-Pacific Countries, Globalization, Post-Cold War Era

GÜNEY KORE'DE EKONOMİK DİPLOMASİ'NİN ETKİSİ: SOĞUK SAVAŞ SONRASI DÖNEMDE ASYA-PASİFİK BÖLGESİNE BİR BAKIŞ AÇISI

ÖZET

Kore Savaşı (1950-1953) yaşandığında Yarımada ikiye bölünmüş, bunun sonucunda milyonlarca insan ölmüş ve altyapının yarısı yok olmuştur. Başkan Park, durumu telafi etmenin tek yolunun eski İthalat İkame Endüstrileşme Modelini bir kenara bırakıp bunun yerine İhracat Odaklı Endüstrileşme Modelini uygulamak olduğunu fark etmiştir. Türlü engellere rağmen, Güney Kore bir zamanların en fakir ülkelerden biri olmasına rağmen, olağanüstü ekonomik başarılarla imza atarak dünyanın en hızlı büyüyen ekonomisi haline gelmeyi başarmıştır. Bu çalışmada, Asya-Pasifik bölgesindeki ülkelerin ekonomik çıkarları ve göreceli ekonomik güçleri doğrultusunda rasyonel bir şekilde birbirleri ile ekonomik ilişkiler kurduklarını ve birbirlerini "eski düşman" veya "yeni dost" olarak görmeden pozisyon aldıkları savunulacaktır.

Anahtar Kelimeler: Güney Kore, Ekonomik Diplomasi, Asya Pasifik Ülkeleri, Küreselleşme, Soğuk Savaş Sonrası Dönem

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1. INTRODUCTION

The Asian miracle happened in South Korea when the country shifted from the Import Substitution Industrialization Model implemented in the 1950s to the East Asian Model, also known as the Export-Oriented Industrialization Model, which had been implementing in Japan for some time. The Korean War had left the country with more than a million dead people and also had destroyed almost all of the country's infrastructure. As South Korea changed its development strategy and achieved the "East Asian Miracle" in 1962, the import substitution-based model that was still in use in many developing countries began to be questioned.

The Asian Tigers emerged as a success story among developing countries as they suffered less from the oil crises in the 1970s compared to other countries that continued to implement the Import Substitution Model. The Asian capitalism is distinct as it supports that the state should move away from its "night watchman" role and become a more active actor with a decisive impact on the market. This form of capitalism aims to accelerate capitalist development through creating development strategies and implementing them directly under its surveillance. Asian capitalist approach based on state-private collaboration and private sector-society integration also reflects Confucian principles, which were at the core of the industrialization and social development plan the country had initiated in the 19th century. It is safe to argue that this model calls for "managed markets". In other words, the state manages development processes while organizing employers within themselves and establishing local supplier networks with a focus on maximizing exports.

It should be stated that South Korea made great progress in the social sphere in the 1980s by adapting well to external shocks and additionally, by establishing a functioning multi-party democratic system. The factors that have triggered South Korea to implement the necessary strategies that would transform its economy into a knowledge-based economy in those years include the following:

- Economic slowdown seen around the world,
- High ratios of decline in exports due to the protectionist policies implemented by the US resulting from the foreign trade imbalance between South Korea and South Korea,
- South Korea's declining competitiveness. The country has lost its competitive advantage in labor-intensive industries based on low wages,
- The role of Japan as it has been reluctant to transfer technology to South Korea. This attitude had to do with Japan's fear that South Korea might be a potential rival in the future as it has already tried to enter into the sectors that Japan dominates,
- The pressure exerted by developed countries on South Korea to change copyrights and patent laws to prevent the production of counterfeit goods using reverse engineering methods.

As a result, the government realized that it needed to improve its technological capacity. Thus, South Korea began to develop in a coordinated manner four basic issues that were necessary to achieve a knowledge-based economy: (a) economic incentives and institutional regime; (b) a well-educated and equipped workforce; (c) an effective innovation system; and (d) a modern and adequate information technology infrastructure.

South Korea has succeeded in achieving a prominent place in academic literature as the fastest-growing economy in the world following its export-oriented economic growth strategy resulting in extraordinary economic achievements over the years. As price stability was achieved with the Fifth Development Plan of 1982-1986, the rate of economic growth increased to 12 percent, and it reached the highest economic growth rate in the world. South Korea, whose GDP growth rate now reached 8 percent, began to enjoy its Dynamism Period and Economic Growth Era between 1987 and 1997. According to purchasing power parity, its per capita income has increased above 5 thousand dollars.



Between 1987 and 1997, as the chronic balance of payments deficit problem ended and the savings began to exceed investments, the country's economy managed to develop two and a half times, thanks to low oil prices, a low dollar, and low interest rates. By 1995, per capita income exceeded 10 thousand dollars, and it began to take its place among developed economies. Although the good indicators were interrupted by the Asian Financial Crisis of 1997, the growth rate continued to increase by an average of 4.6 percent annually between 1999 and 2006, thanks to rapid structural reforms and appropriate policy measures, while its per capita GDP exceeded 17 thousand dollars as of 2006.

According to 2006 the data from the World Bank, South Korea is the thirteenth largest economy in the world. It has also demonstrated that it is in a competitive state by growing much faster in the medium-long term. In addition, according to the latest issue of the Global Competitiveness Report 2007-2008 published by the World Economic Forum, the country has now been recognized as an innovation-driven economy and has risen to eleventh place out of 131 countries.

This article aims to examine the economic growth in South Korea and the country's economic and trade relations with other countries in the Asia-Pacific region in the light of fundamental assumptions of economic diplomacy as well as to highlight the processes South Korea has gone through the Post-Cold War era and the results that these processes yielded. Put differently, the article aims to illustrate South Korea's foreign policy objectives in the post-Cold War era and how regional economic cooperation benefits South Korea's economic interests in light of regional dynamics, balance of power, and competitive dynamics among Asia-Pacific countries.

This research uses a qualitative explanatory case study. The data is collected from secondary sources such as academic articles and academic journals, websites, academic books and e-books, and the Databanks of World Bank Indicators and OECD Statistics for statistical data.

In the first section, the article will discuss South Korea's growth trajectory in years by dividing it into five periods and the article will underline the role of internal and external factors in these different periods. In the second section, the discussion will revolve around what economic diplomacy is, the tools it uses, and the alternative theories that the field encompasses. This section will also introduce the literature review. In the third section, South Korea's bilateral trade and economic relations and its strategic role in the Asia-Pacific will be examined. Finally, in the fourth section, the reasons behind South Korea's growth success will be addressed by dividing it into three different categories based on the researchers' perspectives on the subject. The article will conclude by stating that when economic integration driven by globalization and the mutual economic dependency it has fostered among Asia-Pacific countries is analyzed, it becomes evident that economic relations centered on economic diplomacy are based on interests and relative economic advantages, rather than on the notion of absolute friends or perpetual enemies. Regional integration is preferred over the international and supranational organizations that have emerged through globalization or multilateral cooperation.

1.1. Post-Korean War Recovery Era (1953-1961) and the Planned Era (1962-1986)

The period between 1953 and 1961 can be seen as the recovery stage of the country's economy, which was destroyed by the war. Since the early 1960s, those who took over the administration ignored economic problems and gave priority to the country's political problems. In this period the country's industry and economy became highly dependent on export incentives, such as exemptions from customs duties for exporters on imports of raw materials and spare parts, and access to subsidized credits - and foreign aid from other developed countries. When President Park Chung-Hee came to power with a military coup in 1961, he decided to put politics aside and focus on the country's economy: loans began to be given out to large corporate groups via nationalized banks, and practices were implemented to improve the investment environment to reward successful large companies or family business groups, also known as chaebols. The most obvious example of the South Korean government efforts regarding economic issues had to do with the establishment of economic development plans that have been encouraged and implemented since 1962.



The following six "Five-Year Economic Development Plans" were completed by the Park Government between 1962 and 1986:

- **The First-Five Year Economic Plan** that was implemented from 1962 to 1966 aimed to eliminate poverty and lay the foundations of growth without using external resources or creating a current account deficit.
- **The Second-Five Year Economic Plan** covering the years 1967-1971, the annual average GDP growth in the country increased to 9.7 percent, and the export growth increased to 31.1 percent. This time, similar to the previous one, due to the rapid increase in private and public sanctions, the government has aggravated the obligation to increase domestic savings and reduce external debt.
- **The Third-Five Year Economic Plan** that government prepared in 1972 directed its attention to the development of the Light Industry to the Heavy Industry and Chemical sectors and supported these areas with financial policies. However, the external borrowing problem caused by the inability of domestic savings to finance the investments required by these sectors increased significantly. Although this situation started as an economic problem, it became a major political problem in the country over time.
- Another political problem was the inequality in income distribution that resulted from the difference in growth rates between the industrial and agricultural sectors. To solve this problem, the government implemented a price support policy in agriculture in 1969. However, since this policy became one of the most important reasons for the budget deficit, the government also focused on the qualitative dimension of economic growth in **the Fourth Development Plan covering the years 1977-1981**. Another problem was that after the Oil Crisis in 1973, rising prices caused cost inflation to increase, which led to the deterioration of price stability. As a result, inflation in the country exceeded 40 percent in 1974. The stability was achieved with the Fourth Plan, money supply growth was fixed at 20 percent, and tax administration was modernized by introducing a value-added tax.
- South Korea's agriculture-based economy gradually transformed into an industrial-based economy, making it a country with an economic structure that was open to cyclical fluctuations. As economic growth decreased in the early 1980s, the foreign debts increased rapidly inversely, and then high inflation occurred. **The Fifth Economic Development Plan** covering the period between 1982 and 1986, was made to ensure macroeconomic stability in this direction.

As briefly mentioned in *The Secret History of Industrialization*, General Park Chung-Hee came to power in 1961 by carrying out a military coup, eventually won 3 elections by civilianizing martial law, and President Park's electoral successes gained momentum thanks to the Fifth Development Plan that initiated the country's developmental Miracle. Another significant point was that in 1973 - when South Korea's per capita income was 319 dollars and total exports were 1.6 billion dollars - the Heavy and Chemical Industrialization programs were launched, and President Park's dream of raising per capita income to one thousand dollars in 1981 was achieved four years earlier than expected.

Thanks to fiscal policies such as reducing public expenditures, providing tax breaks for exporting firms on depreciation and R&D, and tax reform aimed at improving income distribution, domestic savings increased from 21.9 percent to 29.6 percent. Three factors stand out in this success: first, the decline in energy and raw material prices, which are among the country's main import drivers, and the decline in the price paid for imports due to the low dollar; second, the washed away in inflation expectations as a conclusion of systematic efforts of the government; in finally the rapid increase in productivity.



Table 1. South Korea's GDP and Growth Rates of Agriculture, Industry and Services Sectors, at Constant Prices (%)

Time Periods	GDP Growth Rate (%)	GDP Growth Rate per Capita (%)	Sector of Agriculture's Growth Rate (%)	Sector of Manufacture's Growth Rate (%)	Sector of Services' Growth Rate (%)
Post-Korean War Recovery Era (1953-1961)	4,2*	1.1*
Planned Era (1962-1986)	8	6	3,2	11,9**	6,6**
Era of Growth with Its Own Dynamism (1987-1997)	8	6,9	1,2	8,7	7,7
Financial Crisis Era (1997-1998)	-6,9	-7,5	-6,4	-8,2	-3,9
Post-Financial Crisis Era (1999-2006)	5,2	4,6	0	6,9	4,2
Average of All Eras (1961-2006)	7,2	5,7	2	9,4***	6,2***

Resource: WDI Online, REF Calculations (*) PWT (**) 1970-1986 (***) 1970-2006

As seen in Table 1, while there was a 7.4 percent increase in GDP and a 25.1 percent increase in exports, high domestic savings rates were also achieved. However, when this rapid increase brought with its price increases, annual inflation exceeded 23 percent, and the government had to take urgent measures to ensure price stability.

1.2. The Era of Growth with Its Own Dynamism: 1987-1997

South Korea's economy achieved high economic growth for the first time in its history in 1986. At the same time, it achieved price stability and began to have a balance of payment surplus. It should be noted that behind the success was the drastic change in decision making process. In South Korea decisions in the economy were used to be made from top to bottom in the chain of command in the 1960s. This, however, became undesirable as the economy developed and became more complex. Significant changes were made in both content and quality starting with *the Sixth Five-Year Economic Development Plan* covering the years 1987-1991 as experts from different fields contributed to the preparation of this plan.

In 1991, after South Korea became a member of the United Nations on September 17, and following the collapse of the Soviet Union on December 25, when the GDP per capita exceeded the 7-thousand-dollar limit, *the Seventh Plan* which aimed for an efficient economy through self-regulation and appropriate competition was suspended before its second year due to a change of government.

The previous plan was replaced with *the Five-Year New Economic Plan covering 1993-1997*, which emphasized the importance of reforms in budgetary, financial, and administrative aspects of the economy with the participation of the Korean people. The plan was aimed at bringing South Korea to the level of industrialized countries by 1997. As a result, GDP increased by an average of 8 percent per year between 1987-1997. Per capita income reached its highest rate of increase at 6.9 percent, exceeding 14 thousand dollars in purchasing power parity in 1997.

1.3. The Asian Financial Crisis Era: 1997-1998

If we look at the background of the crisis, we can see the mistrust of investors in Asian economies; the slowdown in export growth in 1996 and the emergence of excess capacity in many sectors; the government's silence on the situation despite the bankruptcy of many chaebols in South Korea; the stagnation in the Japanese economy; and finally, the Asian Crisis that started with the collapse of the Thai Baht in July 1997 and that affected South Korea, resulting in the collapse of the Korean Won, the local currency of Korea in 1997.



Although the terrible picture that revealed the real dimensions of the country's financial fragility in both internal and external dynamics, inadequate regulatory supervision, companies' debts to both the domestic market and abroad, and the weaknesses in the country's administration, expanded the impact of the crisis and showed its effects in developing countries from 1996 to the end of 1998, the side effects of the crisis were quickly overcome thanks to the external financial aid⁴ received.

The fundamental problems underlying the emergence of the Asian Crisis could be summarized as follows:

- **Large short-term capital inflows:** with the government's rapid financial liberalization, which aimed for OECD membership, the Korean won appreciated rapidly and the prices of foreign goods and services became attractive. As a result, the country reached its highest foreign trade deficit in history, 21 billion dollars in 1996.
- **Inadequate regulatory controls over the banking sector and foreign exchange reserves:** South Korea tried to protect its currency at the beginning of the crisis by not devaluing the government, but it lost money both ways as it exhausted its foreign exchange reserves and was forced to devalue the currency.
- Banks are over-indebted in foreign currency due to the outstanding debts of commercial banks, which continue to provide loans to companies in difficulty, and the large amount of short-term foreign funds directed to long-term investments like in the real estate sector.
- **Weak corporate governance:** many chaebols have gone bankrupt because conglomerates invest even in areas where they do not have a competitive advantage.
- As a result of the strong linkage between Southeast Asian economies, especially due to intra-industry trade, and the rapid increase in their dependence on each other in their foreign trade, negative developments in the country create a domino effect and easily affect other countries.
- As a result of policies that prevent non-agricultural use of arable lands to increase agricultural production, the land shortage in large cities has caused real estate prices to increase excessively.

It has been accepted by many Korean economists that the government's tight control of the capital market increased the severity of the 1997 crisis due to the late development of the banking and finance sectors and the imbalance between these two sectors. It is emphasized in the international trade and finance literature⁵ that liberalization should proceed in a certain order in order to prevent financial crises.

1.4. Post-Crisis Period: 1999-2006

The "Lost Decade" for Japan has been marked by deflation, economic stagnation, and dangerous growth slowdown due to a dysfunctional financial system and lack of private demand since the early 1990s. As a result of all these, with the bursting of asset bubbles, the financial system and the private sector in the country faced a huge debt burden.

In 1999, South Korea achieved rapid acceleration in production, thanks to increases in domestic spending, especially for electronic products, and demand from the United States, and returned to an export-oriented growth policy. In the second half of the year, the increase in intra-regional trade, the relief provided to oil-producing countries by the increase in the oil prices, and the appreciation of the

⁴ According to the IMF's Rescue Program data, Korea has been received a rescue package from the IMF on December 3, 1997. According to this package, 21 billion dollars was received from the IMF; 14 billion dollars from the World Bank and the Asian Development Bank; and 20 billion dollars from governments including the USA, Japan, Germany, and Canada. In addition, the pressure from the US government on foreign commercial banks to smoothly transfer South Korea's short-term debts in 1998 made a significant contribution.

⁵ According to economists, the order that should be followed is: (1) financial liberalization should come. (2) domestic financial restrictions should be lifted before foreign trade liberalization. Finally, (3) foreign direct investment restrictions should be lifted before portfolio and bank borrowing restrictions.



Japanese Yen also provided advantages to the South Korean economy. This situation accelerated the recovery by capturing domestic dynamism as Japanese and Korean goods competed in many markets.

The South Korea's economy, which had fallen to 6.9 percent in 1998, recovered rapidly in 1999, with GDP growth reaching 9.5 percent. By 2000, GDP growth was around 8.5 percent (WDI Online). However, due to the impact on Korea's foreign trade, it fell again to 4.8 percent in 2001.

The first thing that stands out in 2002 is that, while the world economy was generally stagnant, it was decided that South Korea would implement a comprehensive restructuring program and appropriate macroeconomic policies in order to take advantage of this stable situation and, so to speak, turn crises into opportunities. As the results of the new economic policies implemented, the country's economy reached a growth rate of 7 percent.

However, due to some of the internal and external problems experienced in 2003, structural problems in the labor market, companies, and the finance sector; the emergence of the SARS disease; and external shocks such as the nuclear weapons crisis created by North Korea, the growth rate regressed to 3.1 percent (OECD, 2004)

In the following three years, economic growth, which varied between 4 percent and 5 percent, settled on a more moderate path. In the decade since the crisis, the South Korean financial system has benefited from the global economic recovery, China's rise in the region, Japan's renewed growth, large intra-regional trade volumes, infrastructure financing needs, and increasingly strong Asian capital resources.

In the next section, one of the main topics of the research article will be discussed: what is economic diplomacy and why economic diplomacy is used in the article. In addition, the systemic, idealistic, and domestic tools used by economic diplomacy will be examined under three main subheadings.

2. Re-thinking Economic Relations Through the Lens of Economic Diplomacy: Literature Review

This section will briefly review the literature on economic diplomacy and the tools available to states in conducting their economic diplomacy. Economic diplomacy is used to examine (a) economic interests and political processes at the international level, (b) policies created by governments and international developments, (c) relations between national and international institutions and how these bilateral and also multilateral relations shape economic policies and facts. This is an inevitable result of globalization which created complex relations between groups, individuals, companies, non-state actors, nation-states, international and even supranational organizations necessary to examine economic and political variables by taking advantage of international dynamics and addressing them in different dimensions. This is essential because, as a result of globalization, it is now necessary to examine economic and/or political variables by making use of international dynamics due to the complex relationships between groups, individuals, companies, non-governmental actors, independent nation-states, international and supranational organizations. Economic diplomacy was shaped by the constraints imposed by the Cold War. With the advance of globalization since the Cold War ended, there are a multitude of non-governmental actors, politicians, governments, and bureaucrats. With globalization, the entire world has been integrated into a single economic system, namely the neo-liberal free market economy, as of the 1990s.

As Odell pointed out in his book *Negotiating the World Economy*, it illustrates how governments attempt to make their policies more credible and how they respond to pressures for democratic accountability in situations where power relations are balanced and economic decision-making is likely to produce some results. Economic diplomacy is best identified with highly political issues such as trade, finance, and the global environment that create common concerns in the interaction between different actors.

An alternative use of theoretical concepts is to bring them together in an analytical toolkit that facilitates understanding of the economic diplomacy process. These tools will be used to identify six factors that



shape economic diplomacy: three systemic factors originating from the international system, two internal factors reflecting the complex nature of the state, and one idea-based factor reflecting ideological elements:

2.1. 1. Relative Economic Power

Relative power underlying the general heading of systemic theories of economic diplomacy, with realism being the dominant theory. The realist approach argues that each party's policy will be shaped according to each other's relative gains. Economic diplomacy is shaped by the mercantilist view that the power and influence of nation-states will increase in direct proportion to the increase in economic wealth (Heckscher, 1994).

2.1.2. International Organizations and Regimes

Regime theory suggests that economic diplomacy creates an increasingly dense network of international institutions and regimes that can therefore cooperate. Standards for international financial market regulation are determined by several expert international organizations. In addition, it is claimed that economic development is neither a direct cause of a country's democratization nor autocratization, nevertheless, democracy creates a suitable environment for economic conditions.

2.1.3. Markets

Economic diplomacy is sensitive to market developments. Economic interdependent integration over time has created global markets for production and investment. Therefore, more and more companies have become part of international supply chains, and production in many sectors is no longer "national". As the number of protectionist 'national' industries decreases daily, this has inevitably changed the nature of economic diplomacy.

2.2.1. Interests and Bargaining

The diversified interests of various social groups will largely determine national attitudes toward economic issues. The benefit of rationalist theories is to analyze in more detail how governments bargain with each other to reach agreements. With the internationalization or globalization of production, this means that interests are no longer solely national interests that shape national preferences. Even so, interest-based approaches in economic diplomacy are still more concerned with internal-domestic factors and have shaped economic diplomacy in this direction. The rationalist approach is at the forefront when analyzing the role of competing interests.

2.2.2. Institutions and the Two-level Game

In all cases, the ministries or other negotiators responsible for negotiating agreements will seek to ensure that they have domestic support among principles or the legislature at all times to ensure that agreements are ratified. Providing such support for internationally negotiated agreements means that almost all negotiators operate at two levels: it is to ensure that an agreement is made at the international level and its principles are approved at the national level. Analytical approaches have been developed that include the dynamic relationship between both levels. Governments rarely act as mere intermediaries. But governments must, in their duty, reconcile conflicting domestic pressures to preserve the continuity of the state, and to this end they must have the institutions to do so. The relationship between the management of this process and international negotiation is explained by Bob Putnam with the metaphor of a two-level game.

2.3.1. Ideas and Persuasion

Ideas can influence economic diplomacy in two ways. Worldviews or norms can shape how negotiators or interests approach negotiations. In economic diplomacy analysis, it is therefore useful to draw on the constructivist literature, which addresses how norms and values develop and affect policy outcomes. According to the argument of constructivist approaches, interests and values can be determined socially. The literature on epistemic communities has provided valuable insights into how ideas and norms can be created when experts from different countries come together to address a particular issue or problem (Haas, 1992). Constructivist analysis allows for argumentation or persuasion based on notions of justice to change the positions or preferences of the parties involved.



3. The Bilateral Economic Relations Between South Korea and Asia-Pacific Region Countries

3.1. South Korea and China Relations

China started to play the open-door policy in the 1970s. During this process, China has taken on a new role and become an important part of the regional supply chain. The trade and foreign direct investment flow between China and Korea has been led by the private sector, not by government initiatives.

After the financial crisis in 1997-1998, South Korea and China shared their extensive production networks with each other and entered Western markets through trilateral trade, defined as the Asian integrated circuit model. Following this success, bilateral trade relations shifted from complementarity to increasing competition, which significantly affected the role of both countries in the region.

Although China ranks high among Asian partners in the region, it has imported heavily from industrialized and developing economies in the rest of the area, while at the same time, it has not exported much to its neighboring emerging Asian economies. If we look at statistical data to better understand this issue, for example, between 1990 and 2006, East Asia's share in China's exports decreased from 67 percent to 38.9 percent. East Asia's share in China's total imports increased from 55.4 percent to 58.1 percent. Consequently, China has a trade deficit with the Republic of Korea in the region.

South Korea has undoubtedly benefited more than any other Asian country from China's opening up of its economy. Since the reestablishment of modern diplomatic relations on August 24, 1992, the two countries' economies have become increasingly interdependent through mutual trade and investment initiatives. However, as Table 2 shows, the most significant increase in bilateral trade occurred in the early 2000s.

Table 2. Korean Exports by Destination, 1992 – 2008 (% share)

	1992		2000		2008
USA	23,6	USA	21,8	China	21,7
Japan	15,1	Japan	11,9	USA	11,0
Hong Kong	7,7	China	10,7	Japan	6,7
Singapore	4,2	Hong Kong	6,2	Hong Kong	4,7
Germany	3,8	Taiwan	4,7	Singapore	3,9
China	3,5	Singapore	3,3	Taiwan	2,7
Top6	57,9		58,6		50,6

Source: KITA

In 1980s, bilateral economic relationship between China and South Korea reached approximately 190 billion dollars. Korea's exports to China approached 107 billion dollars, while imports from China reached 83 billion dollars. Recently, South Korea has become China's second source of imports, leaving Japan in forefront, while the United States in third place. From South Korea's perspective, China has always ranked first in the country's exports, while the United States remains second. This can be attributed to Korea being the East Asian country with the highest pro-China export trend. When evaluated in terms of imports, China's electronic imports from South Korea have shifted to electronic components, telecommunications and computer equipment over time.

3. 2. South Korea and Japan Relations

Although Japan and South Korea did not establish diplomatic relations until 1965, during the Cold War period, it became necessary for the USA to protect South Korea from the effects of communism, which



was gradually spreading, and to revitalize its economy to prove the success of liberalism; this caused the United States to begin making plans to recreate the economic ties that existed between Japan and South Korea before, during the Colonial Period of Japan in South Korea between 1910 and 1945. According to the plan, South Korea will serve as a hinterland for the Japanese economy, and Japan will provide the capital and technology needed to stimulate Korea's economy. Given the historical ties between the two countries, South Korea is an ideal destination for Japan's industries in the textile and other labor-intensive manufactured goods sectors. Additionally, the long-standing surplus in Japan's favor creates the Republic of Korea's dependence on Japanese technology.

Although South Korea was unable to develop advanced technology in sectors such as automobile manufacturing at that time, it emerged as a world-class competitor in many other Japan's key high technology sectors. The country that benefited most from China, the largest and most vibrant export market of the post-Cold War period, was South Korea, as mentioned before. The Chinese market has become the country to which South Korea exports the most as of 2003, and has also managed to rank among the top three imports to China after Japan and Taiwan.

3.3. South Korea and Russian Federation Relations

Russia is promoting long-term international energy cooperation in order to demonstrate its intention to cooperate in both fuel and energy sectors in the region. Russia is moving away from the European Energy Markets due to both economic and political reasons in line with its regional interests, on the other hand, Russia did not want to be dependent too much on the Chinese market, even though they have signed mutual agreements. For this reason, South Korea, which is a potential alternative - despite being a NATO member - has emerged as a major industrial economy and a net energy importer in terms of capital and technology resources.

The biggest obstacle to the natural gas pipeline planned to be passed from Russia to South Korea is that the pipeline must also pass through North Korea, which is on the other half of the peninsula. According to Russia, if this plan is realized, it will provide economic benefits for both sides of the peninsula and will be useful in ensuring stability in the region and even in accelerating the process of unification of both sides. Another reason for Russia is to regain at least some of the influence lost with the collapse of the Soviet Union by preventing North Korea from falling under Chinese subdued.

Diplomatic relations between the Soviet Union and the Republic of Korea were established in September 1990. The aim was to strengthen and deepen the interaction between the countries by establishing trade, economic, scientific and technical cooperation. Although bilateral relations began with the 1988 Olympic Games, when the need arose to legally re-establish relations between the newly established Russian Federation and the Republic of Korea, President Yeltsin paid an official visit to Seoul on November 20, 1992. During this visit, the parties signed agreements covering a wide range of areas, especially agriculture, forestry, industry and construction.

Thus, another important sector is the energy sector, which has the highest potential for mutual cooperation, and South Korea has emphasized the need for joint development of natural resources with Russia in order to increase imports and market share. As the first step towards establishing cooperation in the oil and gas sectors at the intergovernmental level, a cooperation agreement in the gas sector was signed between the parties in Seoul in 2006 by Gazprom representing Russia and KOGAS representing South Korea.

3.4. South Korea and North Korea Relations

South Korea has been located in East Asia, is the southern half of the Peninsula that borders North Korea. North Korea is also located in East Asia, bordering South Korea, Russia, and China. When we look at the competition that South Korea has had to enter into with North Korea since the 1960s, it was an undeniable fact that had to feed the fifth-largest army in the world by allocating 6 percent of the GNP to defense expenditures until recently created a burden on the economic structure.

In addition, the hydroelectric power plant, which meets 90 percent of South Korea's entire electrical energy needs, and the defense industry and chemical facilities built near this power plant remain in North



Korea; North Korea, which was able to allocate 15 percent of its national income to military expenditures by benefiting from the aid provided by the Soviets, was perceived as a threat by both the administration and the public; Finally, the signals that the USA would reduce military and economic aid in the 1960s triggered the establishment of an independent industry for South Korea as soon as possible. Supreme Leader, Kim Il Sung became president on 28 December 1972 and held until he passed away on 8 July 1994.

According to this new communist understanding called Juche, a new communist system has been built that purposes to create a national and self-sufficient independent economy by harmonizing it with the characteristics of South Korea. In fact, it has moved in the exact opposite direction of its aim, and has become dependent on other communist countries such as China and Russia for vital economic functions such as fuel, capital and essential food. The serious damage caused by this situation was revealed with the collapse of the Soviet Union, and the failure of the Juche system was revealed. Despite the nationwide fuel and power shortages, economic recession, severe floods, reductions in food, equipment and crude oil imports by China and the Soviet Union, and one of the worst disasters of that time, famine, North Korea remained both backward and isolated from the world due to the ideology brought by Juche.

When Kim Jong Il inherited the seat he inherited from his father, North Korea's political system is now a totalitarian dictatorship. Every political, social or economic issue related to the country, especially the military, has been taken over by the Workers' Party of Korea and therefore by its leader, Chairman Kim. The North Korean army, which is the fourth largest active duty army in the world and has an estimated 1.2 million soldiers, has been integrated into the country's politics and economy, and due to the extreme isolation it has caused, the level of socio-economic development has not been able to reach the desired levels.

After the Korean War, an ambitious reconstruction plan was undertaken, resulting in relatively large-scale economic growth and the development of heavy industry and agricultural infrastructure. From the beginning of the 1970s until the 1980s, the government attempted to reinvigorate the economy with a large-scale modernization program- the first time the government turned to Western financial capital and their technology- however, the program became a failure.

From North Korea's perspective, one of the culprits of this is the Oil Crisis of the 1970s. The government has also been in a difficult situation due to the high expenses it has made for its citizens, which it is obliged to support, and its army, which it has to feed. In addition to its inefficient and inadequate economic strategies, it has become unable to finance its debts despite loans from Western countries due to its rejection of free market principles and integration with other countries. For this reason, it has also become the first communist country to borrow from abroad.

Since the 1980s, North Korea has been excluded from many areas such as international markets and international organizations. When it realized that it could not find a solution to its financial problems from outside, it began to look for alternative ways to finance its trade deficit (such as drug trafficking, humanitarian aid, arms sales and counterfeiting). Although the picture seems pessimistic, positive results have actually been observed. The best example of this is South Korea's economic, political and social policy package called the Sunshine Policy with the North, which continued to ebb and flow from the 1990s to 1998. The greatest developments occurred in the economy. For example, in 1992, the chairman of the South Korean company Dae-Woo went to Pyongyang, the capital of North Korea, as the first officially invited businessman, and signed an agreement to build a Light Industrial Complex in North Korea.

The mild environment created by such developments has created new interactions between the two states. For example, the first Inter-Korean Summit was held between the Leader of the Democratic People's Republic of Korea, Kim Jong Il, and the Leader of the Republic of Korea, Kim Dae Jung, on June 13-15, 2000.

Despite all these positive developments, North Korea has continued to implement its nuclear weapons program, conduct nuclear tests, and display an aggressive stance in the region. In 2003, the government



withdrew from the Treaty on the Non-Proliferation of Nuclear Weapons, and then in August 2003, the government announced that it had nuclear weapons and equipment. It is anticipated that this issue will create military and security tensions and conflicts in the Korean Peninsula, the Asia-Pacific region, and the world in the future.

3.5. South Korea and the United States Relations

The biggest advantage of the countries in the East Asian region, including South Korea, is that they have achieved the fastest growth success in the world and have gained momentum, and these 21 countries that are members of the Asia-Pacific Economic Cooperation, account for almost half of the world's GDP and global trade, ensuring that the trade occurs among themselves freely and beneficially. The United States has also played a leading role in the region's economy as both the world's largest economy and as a Pacific power.

If we need to look at the role America has undertaken in the region in more detail, it is obvious that:

- The United States is the last destination for exports from Asia-Pacific countries
- The main target of direct and portfolio investments from the rest of the region
- As the world's largest economy, it has become the leading source of capital accumulation, money flows and investment controls, and the latest high-technology capacity, and as a decision-maker, when policy decisions made in Washington on macroeconomic, trade and financial regulation shape both market economy, its outcomes and influenced the others policies at the same time.
- It has maintained a balanced economic diplomacy towards the region to support its economic interests in the Asia Pacific.

The positive or negative developments in the Asia-Pacific have directly affected America's military, economic, and political interests. During the Cold War between 1947 and 1991, Asia served as a "buffer zone" between the Soviets and America. Similarly, America still plays a stable and soothing role in the area towards inhibit the possibility of the future conflicts and internal turmoil due to the not-yet-unsolved past struggles in the Asian region. Korean War, which caused the Korean Peninsula to be divided between the isolated Communist North and the rapidly developing South, is also the subject of one of the conflicts that have occurred in the region and is still likely to arise in the future.

Since 1995, the South Korean government has spent 15 percent of its budget on military and defense spending due to the perceived threat posed by the North in the region, and its aggressive stance, but its economy has continued to grow. The country has become the seventh largest trading partner with the United States and the eleventh most developed economy in the world. While its economy continued to expand rapidly, the primary reasons for its current account deficit with the United States since 1994 are variations in the value of the local currency, the won, decreases in global demand for high-value-added products, aggregative wage increases, and rises in domestic demand for capital equipment.

South Korea accomplished its membership in the OECD in 1996, which was one of the government's goals. The reasons behind this membership are that the country has increasingly embraced its role as a strategic partner in the political and economic fields both in the Pacific and comprehensively and has increasingly played an active role. Moreover, it is one of the founding members of the APEC forum.

4. DISCUSSION

South Korean economy has grown at an average ratio of around 5.2 percent per year since the monetary crisis cropped up (Table 2). In 2007, according to the rankings made by the World Economic Forum, South Korea is considered an economy with a high focus on innovation, having completed all four stages of industrialization.

Considering the stages that South Korea has gone through, scholars have tried to explain the economic growth in the country by dividing it into three separate groups:

As the first group, according to neo-classical economists, while the theoretical links between trade and economic growth are still has been opened up to debate, it has been observed that the level of economic



development, taken into account in the comparative advantage adjustment, is positively related to the growth of trade with foreign countries. They argue that South Korea, which followed an import substitution economic policy with high tariff walls, suppressed financial markets before 1960, abandoned these policies and switched to an export-oriented growth strategy after the reforms - which are devaluations, single exchange rate application, export subsidies and moderate import liberalization - South Korea increased its foreign trade by specializing in areas where it has a competitive advantage, as David Ricardo and Adam Smith tried to explain with the Comparative Advantage doctrine and that openness to the outside world decreased thanks to technological advances and achieved high growth rates.

The second group consists of Chang, Amsden, Mavlianov, and Wade, who argue that the real power behind this success is that, as in Japan, governments in South Korea intervene in the economy, manipulate it, change market prices and provide relative trade advantage by widely promoting certain sectors. Indeed, just as it initiated the heavy industry and chemistry drive in 1973, the state demonstrated intelligent and pragmatic guidance and supported different sectors at different times during the development phase of the economy. In addition, at that time, while the government, as the owner of all banks, directed loans that were a lifeline for trade, the state itself undertook some large projects of State Economic Enterprises, one of the best and most well-known examples of which is Pohang Iron and Steel Company (POSCO), which has been a steel manufacturer since 2002. In the South Korean example, it should not be ignored that the state did not follow a completely open economic growth strategy. Because, by keeping customs duties low on investment goods and intermediate goods, and even by completely exempting companies with export success from customs duties, it has protected the developing baby industries with customs duties and non-tariff barriers until they reach a level that can withstand or even compete in the international market.

Rodrik and Song opposed both views and formed the third and last group, arguing that the growth miracle cannot be explained by export-oriented growth alone. Governments have developed an investment strategy and contributed to the growth in human capital accumulation (more educated workforce) and per capita income, thanks to physical capital accumulation (more capital goods). Another common statement of theirs is that, as a result of the sacrifices made by the workforce in South Korea, although their incomes have begun to increase, the people's tendency to save without consuming personally and invest in the future of their families or companies has accelerated capital accumulation. In addition, when families assumed responsibility for their own members at that time, the state spent the funds it would use for social security on industry and infrastructure.

In the early years, South Korea encouraged textile, clothing, and footwear, and later electronic products and machinery sectors for export. Like the electronics and machinery industry began as an assembly of parts manufactured in Japan, but with technological advances, increasingly more complex parts began to be produced domestically.

Importance has been given to technological progress to increase productivity to maintain both export volume and international competitiveness in the face of increasing wages. Despite the reluctance of Japanese companies to share their technologies with other countries, South Korea has made the most technology transfers from Japan, both through licensing and purchasing patent usage rights. South Korean students, who worked at Japanese institutes of technology and were accepted to the engineering faculties of both American and Japanese universities, had a share in technology transfer through reverse engineering practices.

5. CONCLUSION

This study demonstrated South Korea's foreign policy objectives in the post-Cold War era and how regional economic cooperation serves economic interests of South Korea in the light of regional dynamics, balance of power and competition dynamics among Asia-Pacific countries.

To conclude, one of the first things that could be observed about the South Korean development trajectory is the state-led guidance in the economy, leaving aside the political perspective of the administration. Some have argued that, on the one hand, the state is using the carrot-and-stick method:



cheap loans, tax exemptions, and subsidies provided by nationalized banks, while chaebols have given quotas on the achievements they must achieve and are directed to export rather than import unless necessary. According to others, however, the main factor that encourages the success of both human accumulation and capital accumulation and what makes them qualified is the effective role of the state and its close monitoring and management of the country's economy like a maestro. In particular, as one of the most important indicators of the importance given to R&D research, thanks to the support provided by both the private sector and the state and the qualified human resources resulting from high literacy rates, companies such as Hyundai, LG, and Samsung have a very high global competitive potential and added value. Global brands producing high-quality products have been created.

Another point on this issue is that when economic integration brought about by globalization and the mutual economic dependency it has created through the Asia-Pacific countries is assessed, what is observed is that the economic relations focused on economic diplomacy are based on interests and relative economic relations without the perception of absolute friends or eternal enemies. It is evident that regional integration is favored over the international and supranational organizations that emerged with globalization or multilateral cooperation.

South Korea, just like Japan and the remaining Asian Tigers, managed to break its glass ceiling in the 1960s and escape from the middle-income trap by rapidly adopting an export-based economic model instead of an import-substitution model. When we evaluate the period between 1960-1990, Turkey, a newly developing country similar to South Korea in many aspects, such as political upheavals, economic crises, and military coups experienced in the country's history, tried to switch from an import substitution model to an export-based model.

Just as Şevket Pamuk mentioned, the gap between growth rates and social standards in Turkey, the fact that it has not achieved any economic and social development miracle like South Korea, the political and macroeconomic crises experienced in the country, the fact that human accumulation is always put in the second or even third place, the long-lasting and The result was not as expected due to both internal and external factors such as falling behind in competitiveness due to protectionism that cannot be abandoned, and not being able to keep up with global needs and trends, but since it did not have the infrastructure or economic power to catch and maintain the momentum.

In short, no matter how hard you try to apply the exact recipe, the results will differ depending on the conjuncture and the internal and external dynamics of the countries.

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